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SUBJECT: PUTIN'S LECTURES DUMA ON GOR'S ANTI-CRISIS MEASURES

REF: A. MOSCOW 859
[1](#)B. MOSCOW 621

[1](#)1. (SBU) Summary: In an address widely believed to have been postponed so as not to conflict with last week's G-20 London Summit and the meeting of Presidents Obama and Medvedev, Prime Minister Putin presented his first annual report to the Duma. Putin devoted much of his hour-long speech, which included a numbing amount of statistics and which was accompanied several times by tepid applause, to itemizing all the social programs (including pension support) that the government would finance, despite the strains on the budget. He justified steps taken to date by the GOR to keep banks and the corporate sector afloat, but cautioned that the budget was intended to stimulate "business activity" and encourage innovation, not simply keep inefficient enterprises going. He again denied any blame for Russian current economic woes and predicted that 2009 would be a difficult year. While most of his speech contained no surprises, Putin gave unequivocal notice to banks and corporations that they would have to sink or swim on their own as social spending would be the state budget's priority. A "question time" in which each of the four political parties represented in the Duma were allowed to ask Putin three questions, was not broadcast nationally, perhaps to show his continued invulnerability. End Summary.

Little Fanfare

[1](#)2. (SBU) On April 6, Putin gave his first annual report to the Duma in his capacity as Prime Minister. The speech, originally slated for April 2, was delayed, many believe, so as not to steal the limelight from the G-20 conference and the meeting between Presidents Obama and Medvedev. By most accounts, the Putin speech was a lackluster performance, full of mind-numbing economic statistics from 2008 and punctuated by sporadic lukewarm applause from the Duma deputies.

[1](#)3. (SBU) Putin outlined his "development budget", promising to lower inflation from 13 percent to 8 percent in the next three years and reduce the budget from 8 to 3 percent of GDP by 2011. He took great pains to assure his audience that all social obligations to Russian citizens would be met. He vowed, for example that pensions would be increased (indexed to inflation) while acknowledging the difficulties of raising social taxes on business during a time of crisis. Likewise, he promised that the crisis would not interfere with people's long-term plans to get an education or purchase a home.

¶4. (SBU) Putin insisted that all the decisions the GOR had taken to date to address the economic downturn were correct. He scolded Duma deputies for calling the corporate and banking recipients of GOR support "fat cats" and implored them to be more understanding. He emphasized that the gradual, "managed" devaluation of the ruble had led to the currency's stability and benefited ordinary citizens and manufacturers. Putin further explained how the flat income tax was better for the GOR's revenues (it kept taxpayers out of the shadow economy) and why rail tariffs, among others, could not be frozen (the reduced income would discourage investment).

No More Handouts

¶5. (SBU) Putin emphasized that enterprises should not expect any more handouts. The 2009 budget was a "budget of development". As such, it was intended to stimulate new business activity and innovation, but not perpetuate inefficient enterprises. He warned that if businesses could not restructure themselves and succeed commercially, then they should be allowed to fail. At the same time, while he reassured the Duma that the government would protect the employees of failed enterprises and provide job re-training, this is the first time that the GOR has articulated the notion that not every factory would be helped.

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Ending on a Positive Note

¶6. (SBU) Although Putin reiterated the GOR mantra that Russia was "victimized" by rapid capital outflows late last year and the precipitous drop in foreign demand for Russia's commodities, he refrained from placing the blame for Russia's economic ills on the United States. He noted the progress Russia had made in promoting the Southstream and Nordstream pipelines, but commented wryly that "not everyone wants to see the Russian Federation increase its exports". Putin concluded that while the crisis was far from over, Russia continued to export its commodities, and the nation's reserves were gradually being replenished, thereby ensuring that the country would remain one of the largest economies in the world.

"Question Time" Not Broadcast Nationally

¶7. (SBU) Perhaps to protect Putin's omniscient image of invulnerability, state-controlled television did not broadcast the "question and answer" period pursuant to which the four parties represented in the Duma asked questions they had already submitted to the Office of the Prime Minister. Most of the questions concerned cuts in social programs. The KPRF's Aleksey Ponomarev asked Putin about U.S. culpability for the current economic crisis, but Putin replied that the situation was difficult throughout the world and then set about repeating his proposals for restructuring the economy and financial system. After Putin's presentation, KPRF faction leader Gennadiy Zyuganov stated that three current government ministers -- Defense Minister Anatoliy Serdyukov, Finance Minister Aleksey Kudrin, and Education Minister Andrey Fursenko -- are not fit for their jobs.

Comment

18. (SBU) The upbeat conclusion of Putin's speech reflects the sense that the economy has stabilized in recent weeks: oil prices have edged up and the ruble is stable. Some of Putin's advisors maintain that the economy has reached bottom and a recovery is expected by the end of the year. On the other hand, there are warnings, emanating from Finance Minister Kudrin among others, that this may be a temporary phenomenon with a second banking crisis looming on the horizon. A prudent husbandry of GOR's limited reserves appears to be the order of the day, with the GOR unable to maintain social spending and simultaneously bail out Russian companies facing major payment problems this year, including potential defaults. In his speech, Putin sent out the word unequivocally that the GOR no longer intends to bail out private companies. End Comment.
BEYRLE